In The Oil Fields

OIL MARKET QUOTATIONS.

Pennsylvania	$1.35	Kan. & Okla...	.40
Mercer black..	.97	Healdton	.50
New Castle ..	.97	Corsicana light	.45
Corning	.88	Cors. heavy ..	.40
Cabell	.97	Electra	.45
North Lima ..	.88	Henrietta	.45
South Lima ..	.88	De Soto	.50
Wooster	1.10	Caddo (38 d.).	.60
Indiana	.78	Caddo (35 d.)	.50
Princeton	.84	Caddo (32 d.)	.45
Somerset	.80	Caddo crude ..	.45
Ragland	.63	Canada	1.28
Illinois	.84		

NO DISCRIMINATION IN HEALDTON FIELD

Bureau of Corporation Reports Result of Investigation.

WARRANT REDUCTION

However the Report Does Not Hold Pipe Line Without Blame.

WASHINGTON, May 4.—In response to a senate resolution directing an investigation into the cause of a reduction in prices of crude oil in 1914 in the Healdton, Okla., oil field, sometimes called the Ardmore field, a report by the old bureau of corporations was laid today before President Wilson. The report was completed before the bureau was merged with the new federal trade commission.

The investigation revolved around the charge that the Magnolia Pipe Line company, having a monopoly in transportation of oil in the Ardmore field, had arbitrarily reduced the price of crude oil and had practiced discriminations.

"In brief," says the report, "the conclusion of the bureau is that reductions in the price of Healdton crude oil were made because of the discovery by the Magnolia Pipe Line company of its small gasoline and kerosene content, and because the lubricating values of this crude were not enough to warrant, under existing conditions, its use for the manufacture of lubricants.

"The pipe line company, however, does not appear to be without blame for its failure to determine the true character of the oil at an early date. This would have saved much disappointment to producers.

"The bureau found no evidence of any intent on the part of the pipe line company to discriminate between the different producers or against the oil produced on Indian allotments. The bureau did find, however, that at various periods some producers may have been favored at the expense of others. Under the law the pipe line company should either have taken the total production or should have prorated its purchases and equalized them within 30 days. In the case of most of the producers temporary inequalities were apparently corrected within the legal period. The unreliability of existing records relating to production and the unsettled question as to what legally constitutes discrimination, preclude a positive statement in regard to the subject."

The full report follows:

Department of Commerce, Bureau of Corporations, Washington, March 15, 1915.

Sir—I have the honor to submit herewith a report dealing with the conditions in the Healdton, Okla., oil field (sometimes called the Ardmore oil field).

This report is made pursuant to a resolution passed by the senate on March 28, 1914, which directed an inquiry into the cause of a reduction made shortly before that time in the price of crude oil in the "Ardmore" oil field on the part of the Magnolia Pipe Line company, whether corresponding changes had been made in the prices of the finished products manufactured from such oil, and whether discriminations were practiced on the part of the company as between different producers of oil in the field, especially against the oil on Indian allotments.

The Controversy.

The Healdton oil field was discovered in August, 1913. Shortly after, representatives of the Magnolia Petroleum company pronounced the Healdton crude oil to be a high-grade oil, similar to that from the Electra, Texas, field and the northeast Oklahoma fields. They stated publicly that the current Oklahoma crude oil price at the wells would be paid. The Magnolia Pipe Line company, owned by the same interests as the Magnolia Petroleum company, was incorporated under Oklahoma laws to own and operate a pipe line in that state. Its pipe line connected at the Texas-Oklahoma boundary with the pipe line of the Magnolia Petroleum company. By January 26, 1914, the Magnolia Pipe Line company, which had erected storage tanks in the field, began to purchase oil and store it, in anticipation of the completion of its pipe line. There were then in the ifeld about 15 producing wells, with an estimated total daily production of 1,555 barrels of crude oil. On January 26 the Magnolia Pipe Line company notified the producers that it would pay $1.03 per barrel at the wells for Healdton crude petroleum testing 32 degrees Baume and above, which was the current Oklahoma crude oil price. On March 2, however, the company reduced its price for Healdton crude oil testing less than 32 degrees Baume scale to 70 cents, although the current Oklahoma crude oil price was $1.05. The price of Healdton crude petroleum testing 32 degree Baume and above was raised from $1.03 to $1.05 on March 9. The pipe line company later notified the producers that on and after March 23 it would not purchase more than 4,000 barrels daily, and that it would prorate, according to Oklahoma law, the quantity taken from each producer in the proportion of his daily production to the total production. The total daily production of the field at that time was estimated at about 10,000 barrels. On March 26 the price for all grades of Healdton crude oil was fixed at 70 cents per barrel. On April 13, and again on April 20, additional reductions of 10 cents per barrel were made, bringing the price of Healdton crude oil down to 50 cents per barrel at the wells. Up to January, 1915, the price remained unchanged. In each instance the reduction in price was defended by the pipe line company on the grounds of the inferior refining qualities of the oil.

Following the first cut in price (on March 2), the producers complained to the corporation commission of Oklahoma, which sent a special inspector to the Healdton field to make an official test of the gravity of the crude oil. On March 13, 1914, the commission held a hearing at Oklahoma City, at which the producers and the pipe line company presented their respective sides of the case. The report of the inspector employed by the commission was, on the whole, adverse to the producers' claim that the company was not justified in its action. The commission decided to postpone the case until both the producers and the pipe line company could more thoroughly investigate the refining quality of the crude oil.

Following the cut in price to 50 cents per barrel on April 20, the producers laid their complaints before the attorney-general of the state, who instituted proceedings against the Magnolia Pipe Line company before the corporation commission. The attorney-general charged that the pipe line company was guilty of illegal acts in unreasonable restraint of trade, and various illegal practices, especially discrimination between different producers in its purchases of oil. The case was heard before the corporation commission in May, 1914. During the course of the hearing the charge against the pipe line company for discrimination between producers was virtually abandoned. Although evidence was received regarding the quality of Healdton crude, the commission made no findings on the subject. A compromise agreement was arranged out of court between the producers and the pipe line company. This agreement was made the basis of an official order which was issued by the corporation commission on May 7. Among other things, this order prescribed the minimum quantities of oil to be daily purchased and run by the pipe line company from the field between certain specified dates. An inspector for the Healdton field was appointed with full authority to investigate all runs of oils, to ascertain the production of all wells, and to apportion the amount of oil which should be taken from each producer so as to prevent any discrimination. He took charge of this work on May 12, 1914.

Investigation by Bureau.

In the consideration of the questions raised in the senate resolution the bureau investigated thoroughly the subject of the refining value of Healdton crude oil. It secured not only the results of many laboratory anaylses and of test runs made on a small scale, in miniature stills holding about one barrel, and by refineries on a large scale, approximating commercial conditions, but it also secured from two refineries, namely, the Magnolia Petroleum company's Corsicana refinery and the Pierce-Fordyce Oil association's Fort Worth refinery, the results obtained from about 1,700,000 barrels of Healdton crude oil, which were the only important quantities of Healdton crude refined in the course of regular commercial operations. The bureau also obtained information relating to the prices of the finished products manufactured from Healdton crude oil.

A careful investigation was made into the question of whether discrimination was practiced by the pipe line company in its purchasing of oil from different producers in the field, and particular attention was given, in this connection, to the subject of oil produced on Indian allotments. The investigation of the bureau of corporations includes a thorough examination of the books and records of the Magnolia Pipe Line company and the Magnolia Petroleum company.

Monopoly of Magnolia.

The Magnolia Pipe Line company from January 26, 1914, when it began to buy and run oil into its pipe line system in the Healdton field, up to November, 1914, had a monopoly of the only practical means of transporting the oil from the field to a refinery market. It did not transport any oil as a common carrier. The lack of marketing facilities and the charges for transportation were such that the producers preferred to sell their oil at the wells to the pipe line company, and no oil was offered for transportation.

The pipe line company bought all the oil entering its pipe line, stored it, transported it to the boundary line between Oklahoma and Texas, and sold it to the Magnolia Petroleum company, an allied concern. The Magnolia Pipe Line company, in virtue of the circumstances which made it the only purchaser, as well as transporter of the oil produced in the Healdton field, in fixing the price which it would pay for the oil, at the same time fixed the market price for all the oil produced in the field.

Reduction of Price.

With respect to the cause of the reductions in the price fixed by the Magnolia Pipe Line company, the bureau finds no evidence of an intent to arbitrarily depress land values in order to buy oil-producing property more cheaply or to acquire stocks of oil already accumulated at a price much below its real value. It is true that officials of the Magnolia Petroleum company early in the development of the Healdton field made exceedingly favorable statements in regard to the refining quality of the oil and said it was a high-grade oil. They assert that this was a bona fide mistake, and the evidence of the correspondence in the files of the Magnolia Pipe Line company and the Magnolia Petroleum company as well as their actions support this contention. When they discovered that only a relatively small proportion of gasoline and kerosene could be obtained from it, that the oil did not have enough lubricating value to make it practicable for them to use it for the manufacture of lubricants, and that it had a relatively high percentage of fixed sulphur, to remove which increased the cost of refining, the Magnolia Pipe Line company made the various reductions in price. This was done, they claim, in order to put the f. o. b. refinery cost of the crude oil from the Healdton field on a competitive basis with the f. o. b. refinery cost of the crudes from other fields that were available to the Magnolia Petroleum company's refineries.

The bureau of corporations finds that the contention of the pipe line company regarding the small gasoline and kerosene content of the crude oil produced in the Healdton field is correct. It is of the opinion also that while Healdton crude is chemically adapted to the manufacture of lubricants, yet, in view of the prices at which other crudes better adapted to the manufacture of lubricants could be bought and the limited market for the lubricants obtainable from Healdton crude, its lubricant qualities added little to its market value. The fixed sulphur which is found in the Healdton crude is removable from the gasoline and kerosene by methods which are not unduly expensive, although more expensive than is necessary for other competing crudes. The sulphur, however, does not affect the value of the Healdton crude enough to justify any important reduction in the price paid for the oil. In brief, the conclusion of the bureau is that the reductions in the price of Healdton crude oil were made because of the discovery by the Magnolia Pipe Line company of its small gasoline and kerosene content, and because the lubricating values of this crude were not enough to warrant, under existing conditions, its use for the manufacture of lubricants. The pipe line company, however, does not appear to be without blame for its failure to determine the true character of the oil at an early date. This would have saved much disappointment to producers.

Prices of Crude Oil.

In regard to the question raised in the senate resolution, whether changes were made in the prices of the finished products manufactured from Healdton crude oil corresponding to the changes in the price of the crude, it should be noted that no finished products from Healdton crude oil were marketed until about the latter part of April, 1914, at which time all of the reductions in price had taken place.

The bureau has made comparisons, based on the total value of the products derived from them, of the commercial values of crude oil produced in various Oklahoma, north Texas and north Louisiana oil fields. It has made such comparisons on two bases—first, the yields shown by the analyses made by the United States bureau of mines, which uses a standard method of testing for all kinds of crudes, and second, the yields shown by regular refinery operations. The results of both comparisons show that the products derived from Healdton crude are distinctly less valuable than those derived from other crudes which were available to the Magnolia Petroleum company's refineries. Consequently, under competitive conditions the price of Healdton crude would naturally be lower.

Discrimination Between Producers.

In considering the question raised in the senate resolution, whether discriminations were made by the Magnolia Pipe Line company between different producers in the Healdton field, and especially against the oil produced on Indian allotments, the bureau has limited its investigation to the period between January 26, the date that the pipe line company began to purchase oil from the producers in the Healdton field, and May 12, the date on which the inspector appointed by the corporation commission of Oklahoma took charge of the determination of the quantity of oil to be taken by the pipe line company from each of the various producers in the field.

The bureau has carefully examined all of the testimony in the record of the corporation commission hearing in May, 1914, at which time the charge of discrimination was officially brought before the commission in the complaint filed by the attorney-general. Additional evidence bearing on this subject has been collected by the bureau. It consists of information gathered in interviews with persons in a position to know the facts, of sworn statements and of statistical material gathered fro mthe records of the Magnolia Pipe Line company and, whenever it was possible to obtain it, from the records of the producers themselves.

In the absence of any federal statute defining what constitutes discrimination by pipe lines, the bureau has based its work on the Oklahoma statute dealing with the subject. As there has been no judicial construction of several points involved in the application of this law to the conditions found to have existed in the Healdton field, the bureau has been obliged in answering the question raised by the senate resolution, to apply its own interpretation. Under the Oklahoma law, the pipe line company must either purchase all the current output of each producer or take such proportion of his output as his production bears to the total production. The pipe line company is allowed a period of 30 days in which to correct inequalities.

The lack of definite verifiable records dealing with the production at this early period makes it difficult to determine the facts exactly. Few producers had any such records and the records of the Magnolia Pipe Line company, while accurately showing the quantity of oil taken from each producer, contain only estimates of the production, and statements of doubtful accuracy concerning the oil held in storage in the producers' tanks. The pipe line company at this early period considered itself able to take all of the current production of the field without difficulty and therefore did not pay special attention to the matter of making ts purchases from the different producers in proportion to their production.

The bureau found no evidence of any intent on the part of the pipe line company to discriminate between the different producers or against the oil produced on Indian allotments. The bureau did find, however, that at various periods some producers may have been favored at the expense of others. Under the law the pipe line company should either haxe taken the total production or should have prorated its purchases and equalized them within 30 days. In the case of most of the producers temporary inequalities were apparently corrected within the legal period. The unreliability of existing records relating to production and the unsettled question as to what legally constitutes discrimination, preclude a positive statement in regard to the subject.

Very respectfully,
JOSEPH E. DAVIES,
Commissioner of Corporations.

The President.

(Additional Oil on Page Ten)

Notice to Contractors.

Sealed proposals for the erection of an addition plumbing, heating and wiring to the Glenpool, Oklahoma, schoolhouse will be received by the board of education, Glenpool, Oklahoma, at 11 a. m., May 7, 1915. Plans and specifications on file at office of E. Endacott, architect, Tulsa, Okika. A deposit of $50 required for safe return of plans and specifications. The Glenpool board of education reserves the right to reject any and all bids.—Adv.

BUSINESS CARDS

Condensed Statement of the Condition of
The First National Bank
Of Tulsa, Oklahoma
at the Close of Business May 1, 1915

Resources

Loans		$1,004,538.63
Overdrafts		0.00
U. S. Bonds (at par)		126,000.00
Stock in Federal Reserve Bank		2,800.00
Real Estate, Furniture and Fixtures		21,608.95
Bonds, Warrants and Other High-Class Securities	$170,738.79	
Cash and Due from Banks	**745,379.46**	**916,118.25**
		$2,071,065.83

Liabilities

Capital Stock	$ 125,000.00
Surplus and Profits	33,823.37
Circulation	125,000.00
Deposits	**1,787,242.46**
	$2,071,065.83

OFFICERS

G. R. McCULLOUGH .... President
H. O. McCLURE .... Vice-President
A. E. BRADSHAW .... Cashier
ROSCOE ADAMS .... Assistant Cashier
E. S. YOUNG .... Assistant Cashier
C. W. BENEDICT .... Special Representative

DIRECTORS

G. R. McCULLOUGH, A. E. BRADSHAW, L. K. CONE, WM. H. WALKER, H. O. McCLURE, S. DeZELL HAWLEY, J. M. HALL, B. F. RICE, P. L. PRICE

Condensed Statement of the
Merchants and Planters Bank
at the Close of Business May 1st, 1915

RESOURCES

Loans and Discounts	$303,618.64
Overdrafts	NONE
Bonds and Warrants	22,197.83
Furniture and Fixtures	6,500.00
Other Real Estate Owned	593.00
Cash and Sight Exchange	**271,853.48**
	$604,762.95

LIABILITIES

Capital	$ 50,000.00
Earned Surplus	10,000.00
Undivided Profits	5,416.36
Deposits	**539,346.59**
	$604,762.95

The above statement is correct,
G. N. WRIGHT, President. F. A. HAVER, Cashier.

G. N. WRIGHT
J. TRUMAN NIXON
J. M. CRUTCHFIELD
W. A. REYNOLDS
E. L. TALMAN
JAS. A. HOBSON
F. A. HAVER
ROBERT R. LOCKWOOD
H. B. FREDERICK,
W. A. BROWNLEE
E. A. WATTS

NOTE: This statement is not published by instruction of the State Bank Commissioner. It is voluntarily given for what it is worth.